

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Onekama	County Manistee
Fiscal Year End February 28, 2007	Opinion Date August 29, 2007	Date Audit Report Submitted to State August 31, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.		Telephone Number (231) 946-2300	
Street Address 928 South Garfield Avenue, Suite 3		City Traverse City	State MI
Zip 49686			
Authorizing CPA Signature 	Printed Name Lee W. Torrey, CPA	License Number A259355	

**VILLAGE OF ONEKAMA  
MANISTEE COUNTY, MICHIGAN**

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**AUDIT REPORT WITH REQUIRED  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED FEBRUARY 28, 2007**

**VILLAGE OF ONEKAMA**  
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## Independent Auditor's Report

August 29, 2007

To The Village Council  
Village of Onekama  
Onekama, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Onekama, Michigan, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Onekama's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Onekama, Michigan, as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2007, on our consideration of the Village of Onekama, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 8 through 11 and 32 through 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Onekama, Michigan's basic financial statements. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KATONSE, VANDERBEEK & TORREY, P.C.

Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

August 29, 2007

Village Council  
Village of Onekama  
Onekama, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Onekama as of and for the year ended February 28, 2007, which collectively comprise the Village of Onekama's basic financial statements and have issued our report thereon date August 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Village of Onekama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Onekama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Onekama's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the Village of Onekama's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Onekama's financial statements that is more than inconsequential will not be prevented or detected by the Village of Onekama's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

#### **Finding 1 – Inadequate Segregation of Duties**

**Criteria:** Segregation of duties is a basic, key internal control. The underlying concept for segregation of duties is that no single individual should have control over all phases of a transaction or procedure. Ideally, the incompatible functional responsibilities of authorizing (initiating) transactions, custody of assets, and record-keeping should be the responsibility of separate individuals.

**Condition:** The Village of Onekama's sewer collection and billing procedures are currently being performed by only one individual.

**Cause:** This condition is caused by the Village's current staffing level.

**Effect:** As a result of this condition, the Village lacks adequate internal control over the process of sewer billing and collection.

**View of Responsible Officials:** The Village has evaluated the cost vs benefit of hiring additional individuals to assist in this process and has determined that it is in the best interest of the Village to not increase staff.

#### **Finding 2 – Supply Inventory**

**Criteria:** Governmental units that maintain inventories of supplies are required to account for these assets within each applicable fund and to properly value them. As a part of this process, generally, a physical count is performed at least annually.

**Condition:** The Village has not taken a physical inventory of its supplies inventory since February 28, 2005.

**Cause:** This condition was caused by an oversight. The physical inventory count was simply not taken for the years ended February 28, 2006 and February 28, 2007.

- Effect:** As a result of this condition, the Village lacks internal control over the composition and valuation of the ending inventory.
- View of Responsible Officials:** The composition of inventory items generally does not change much from year-to-year. The cost of these items remains fairly static. The valuation of inventory as of February 28, 2007 is materially correct using the data derived from the February 28, 2005 physical count.

### **Finding 3 – Preparation of Financial Statements in Accordance with GAAP**

- Criteria:** All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
- Conditions:** As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls.
- Cause:** This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally.
- Effect:** As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.



**View of Responsible Officials:** The Village has evaluated the cost vs. benefits of establishing internal controls over the preparation of its annual financial statements in accordance with GAAP, and determined that it is in the best interests of the Village to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Onekama's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Village of Onekama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described below:

The Village was in noncompliance with its operating budget for the General Fund.

The Village was in noncompliance with P.A. 275 of 1980 in that it has an accumulated deficit in its Cemetery Fund.

This report is intended solely for the information and use of management, the Village Council, federal awarding agencies, and the Michigan Department of Treasury, and is not intended to be and should not be used by anyone other than these specified parties.

KACOR, VANDELON + TOLLEY, P.C.

Certified Public Accountants

## **VILLAGE OF ONEKAMA**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEAR ENDED FEBRUARY 28, 2007**

#### **Management's Discussion and Analysis**

##### **Using this Annual Report**

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

##### **The Village as a Whole**

##### **Overview of the Financial Statements**

The Village of Onekama's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

##### **Government-wide Financial Statements**

This report includes government-wide statements as required by GASB Statement Number 34. The government-wide financial statements are designed to provide the reader with a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. These statements are presented using a method of accounting that is similar to a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business-type activities). The governmental activities of the Village include general government, public safety, public works, community and economic development and cultural and recreational activities. The business-type activities of the Village include a sewer service.

## Management's Discussion and Analysis – Continued

Revenues by major source compared to last year are as follows:

	2006 – 07	2005 - 06
Governmental Activities:		
Property Taxes	\$ 77,700	\$ 79,974
State-Shared Revenues	101,315	100,537
Total Revenues	209,696	205,080
Business-Type Activities:		
Charges for Services (Sewer)	177,719	198,496
Capital Grants	165,100	2,290,900

Expenditure by Function with Prior Year Expenses:

	2006 – 07	2005 - 06
Governmental Activities:		
General Government	\$ 76,837	\$ 70,097
Public Safety	1,493	1,283
Public Works	100,095	101,515
Community and Economic Development	1,273	1,319
Recreation and Culture	19,555	10,805
Total	199,253	185,019
Business-Type Activities		
Sewer	\$ 214,086	\$ 159,236

### Fund Financial Statements.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories – governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and use of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing

## **Management's Discussion and Analysis – Continued**

this, readers may better understand the long-term impact of the government's short-term financing decisions. The governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statements of revenues, expenditures, and changes in fund balance for the General Fund, Major Street Fund and Local Street Fund, which are considered to be major funds. Data from the other funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary funds.** The Village has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses an enterprise fund to account for its sewer operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among Village's various functions. The Village uses its internal service fund to charge the costs of equipment used to the individual funds. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

### **Notes to the Financial Statements**

The Notes to the basic financial statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The Notes can be found beginning on page 21 of this report.

### **Government-Wide Financial Analysis**

For the fiscal year ending February 28, 2007 net assets of the village increased by \$218,344 to \$4,188,657. This is largely due to the completion of the sewer upgrade project. The last two bonds from the initial sewer project were paid off early reducing our debt. Beginning net assets were adjusted due to cemetery property given to us in the 1999-2000 fiscal year amounting to \$ 66,000. This property was not reflected in previous year's financial statements.

### **Fund Financial Analysis**

For the fiscal year ending February 28, 2007, the fund balance of the general fund increased by \$28,802 to \$281,088. The major street fund decreased by \$11,680 to \$27,606. The local street fund balance decreased by \$1,858 to \$38,510. Major and local streets fund balances decreased due to extensive repairs and replacements. The non-major governmental funds decreased by \$8,966 to \$55. This is due mostly to the fact that the general fund did not transfer funds to the cemetery fund during the fiscal year. The fund balance of the sewer fund increased by \$138,101 to \$3,411,265, while the fund balance of the internal service fund decreased by \$4,909 to \$178,942.

### **General Fund Budgetary Highlights**

For the fiscal year ending February 28, 2007, total governmental funds ended the year with a fund balance of \$347,259, or an increase of \$6,298 or 1%. Once again, income in the General Fund was over-budgeted by \$13,593 – however; spending was \$104,715 less than the amended budget, leaving budgetary fund balance in the General Fund of \$91,122.

## **Management's Discussion and Analysis – *Continued***

### **Capital Asset & Debt Administration**

The greatest portion of the Village's total assets and debt are in the enterprise/sewer fund. Total net assets of the sewer fund increased from \$3,272,470 to \$3,411,265, due in large part to the completion of the sewer lagoon upgrade. Total debt for the sewer, not counting interest, is \$1,225,000. During the fiscal year '06 -'07, the Village retired the 1973 and 1976 sewer bond debt in full. In addition, the Improvement and Replacement Restricted Reserves required by the revenue bonds stands at \$68,205.

### **Economic Factors & Next Year's Budget & Rates**

The sanitary sewer system needs much upgrading and updating. One lift station needs to be enlarged for additional customers. Pumps will also need to be upgraded. Land that was purchased at the lagoon's site may be sold as it does not appear that Bear Lake or Onekama Township will be attaching to our sewer systems.

Storm drain cleaning needs to continue as we use a lot of sand during the winter. A lot of it eventually ends up in the drain lines.

The Farr Center will need major floor sanding and refinishing during the next year.

New street signs were recently installed at numerous intersections in town. New street lights were installed on Main Street.

A new truck may need to be purchased for the maintenance and plowing of streets.

The Village is working on buying four lots to the east of the Farr Center for building additions and to open up park space. We would also like to build another shelter in the village park.

The millage will remain at 4 mills. 1 mill for streets is billed at the Township level and shared with the Village.

### **Contacting the Village's Managements**

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at:

Village of Onekama  
5283 Main Street  
Onekama, Michigan 49675  
(231) 889-3171

**VILLAGE OF ONEKAMA**  
**GOVERNMENTAL WIDE STATEMENTS OF NET ASSETS**  
**FEBRUARY 28, 2007**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash	\$ 424,967	\$ 76,431	\$ 501,398
Restricted cash	-	68,205	68,205
Internal balances	943	(943)	-
Due from other governments	24,327	-	24,327
Inventories	-	2,029	2,029
Total Current Assets	-	12,715	12,715
	<u>\$ 450,237</u>	<u>\$ 158,437</u>	<u>\$ 608,674</u>
<b><u>Non-Current Assets</u></b>			
Capital assets	\$ 332,306	\$ 4,492,264	\$ 4,824,570
Total Non-Current Assets	<u>\$ 332,306</u>	<u>\$ 4,492,264</u>	<u>\$ 4,824,570</u>
<b><u>Total Assets</u></b>	<u>\$ 782,543</u>	<u>\$ 4,650,701</u>	<u>\$ 5,433,244</u>
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts payable	\$ 4,472	\$ 3,147	\$ 7,619
Accrued interest payable	-	7,384	7,384
Deferred revenue	-	3,267	3,267
Payroll taxes payable	1,317	-	1,317
Current portion of non-current liabilities	-	2,000	2,000
Total Current Liabilities	<u>\$ 5,789</u>	<u>\$ 15,798</u>	<u>\$ 21,587</u>
<b><u>Non-Current Liabilities</u></b>			
Bonds payable	\$ -	\$ 1,223,000	\$ 1,223,000
<b><u>Total Liabilities</u></b>	<u>\$ 5,789</u>	<u>\$ 1,238,798</u>	<u>\$ 1,244,587</u>
<b><u>NET ASSETS</u></b>			
Invested In capital assets - net of debt	\$ 332,306	\$ 3,267,264	\$ 3,599,570
Restricted	-	68,205	68,205
Unrestricted	444,448	76,434	520,882
Total Net Assets	<u>\$ 776,754</u>	<u>\$ 3,411,903</u>	<u>\$ 4,188,657</u>
<b><u>Total Liabilities and Net Assets</u></b>	<u>\$ 782,543</u>	<u>\$ 4,650,701</u>	<u>\$ 5,433,244</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**GOVERNMENT WIDE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

Net (Expense) Revenue and Changes  
in Net Assets

Functions/Programs	Program Revenue			Primary Government		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Primary government:						
General government	\$ 76,837	\$ 2,757	\$ -	\$ -	\$ (74,080)	\$ -
Public safety	1,493	425	-	-	(1,068)	-
Public works	100,095	-	-	-	(100,095)	-
Community and economic development	1,273	-	-	-	(1,273)	-
Recreation and cultural	19,555	-	-	-	(19,555)	-
Other	-	-	-	-	-	-
Total Governmental Activities	\$ 199,253	\$ 3,182	\$ -	\$ -	\$ (196,071)	\$ -
Business-Type Activities:						
Sewer	\$ 214,086	\$ 177,719	\$ -	\$ 165,100	\$ -	\$ 128,733

<b>General Revenues:</b>						
Property taxes	\$ 77,700	\$ -	\$ -	\$ -	\$ 77,700	
State-shared revenues	101,315	-	-	-	101,315	
Miscellaneous	4,906	2,579	-	-	7,485	
Unrestricted investment earnings	8,825	7,427	-	-	16,252	
Rent and royalty income	16,930	-	-	-	16,930	
Transfers	-	-	-	-	-	
Total General Revenues and Transfers	\$ 209,676	\$ 10,006	\$ -	\$ -	\$ 219,682	
<b>Changes in Net Assets</b>						
	\$ 13,605	\$ 138,739	\$ -	\$ -	\$ 152,344	
Net assets - beginning of year	\$ 697,149	\$ 3,273,164	\$ -	\$ -	\$ 3,970,313	
Prior period adjustment - Note 12	66,000	-	-	-	66,000	
Net assets - beginning of year - restated	\$ 763,149	\$ 3,273,164	\$ -	\$ -	\$ 4,036,313	
<b>Net Assets - End of Year</b>	\$ 776,754	\$ 3,411,903	\$ -	\$ -	\$ 4,188,657	

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA  
GOVERNMENTAL FUND BALANCE SHEET  
FEBRUARY 28, 2007**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Assets</u></b>					
Cash	\$ 261,070	\$ 28,458	\$ 39,342	\$ 4,570	\$ 333,440
Due from other funds	9,685	-	730	-	10,415
Due from Other Governments	15,696	5,707	2,924	-	24,327
Total Assets	<u>\$ 286,451</u>	<u>\$ 34,165</u>	<u>\$ 42,996</u>	<u>\$ 4,570</u>	<u>\$ 368,182</u>
<b><u>Liabilities</u></b>					
Accounts payable	\$ 3,224	\$ -	\$ -	\$ 167	\$ 3,391
Due to other funds	822	6,559	4,486	4,348	16,215
Payroll taxes payable	1,317	-	-	-	1,317
Total Liabilities	<u>\$ 5,363</u>	<u>\$ 6,559</u>	<u>\$ 4,486</u>	<u>\$ 4,515</u>	<u>\$ 20,923</u>
<b><u>Fund Balance</u></b>					
Unreserved	\$ 281,088	\$ 27,606	\$ 38,510	\$ 55	\$ 347,259
Total Fund Balance	<u>\$ 281,088</u>	<u>\$ 27,606</u>	<u>\$ 38,510</u>	<u>\$ 55</u>	<u>\$ 347,259</u>
<b><u>Total Liabilities and Fund Balance</u></b>	<u>\$ 286,451</u>	<u>\$ 34,165</u>	<u>\$ 42,996</u>	<u>\$ 4,570</u>	<u>\$ 368,182</u>

The accompanying notes are an integral part of these financial statements.



**VILLAGE OF ONEKAMA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO**  
**THE STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2007**

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Total Fund Balance - Governmental Funds	\$ 347,259
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Amounts reported for governmental activities in the  
Statement of Net Assets are different because:

Capitalized assets used in governmental activities are not  
financial resources and are not reported in  
governmental funds.

Cost of capital assets	\$ 340,637	
Accumulated depreciation	<u>(88,102)</u>	
		252,535

Internal service funds are used by management to charge  
the cost of equipment used to individual funds. The assets  
and liabilities of the internal service funds are included in  
governmental activities in the Statement of Net Assets

	<u>176,960</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$ 776,754</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**GOVERNMENTAL FUND STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<b>General Fund</b>	<b>Major Street Fund</b>	<b>Local Street Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b><u>Revenues</u></b>					
Taxes and penalties	\$ 77,700	\$ -	\$ -	\$ -	\$ 77,700
Licenses and permits	425	-	-	-	425
State grants	49,594	32,824	17,340	1,557	101,315
Charges for services	2,757	-	-	-	2,757
Interest and dividends	7,145	804	792	84	8,825
Rents and royalties	16,930	-	-	-	16,930
Miscellaneous	150	-	-	3,850	4,000
Refunds and rebates	906	-	-	-	906
Total Revenues	<u>\$ 155,607</u>	<u>\$ 33,628</u>	<u>\$ 18,132</u>	<u>\$ 5,491</u>	<u>\$ 212,858</u>
<b><u>Expenditures</u></b>					
Current:					
General government	\$ 71,567	\$ -	\$ -	\$ 12,964	\$ 84,531
Public safety	-	-	-	1,493	1,493
Community and economic development	1,273	-	-	-	1,273
Recreation and cultural	19,168	-	-	-	19,168
Public works	19,255	37,377	43,463	-	100,095
Total expenditures	<u>\$ 111,263</u>	<u>\$ 37,377</u>	<u>\$ 43,463</u>	<u>\$ 14,457</u>	<u>\$ 206,560</u>
<b><u>Excess of Revenues Over (Under)</u></b>					
<b><u>Expenditures</u></b>	<u>\$ 44,344</u>	<u>\$ (3,749)</u>	<u>\$ (25,331)</u>	<u>\$ (8,966)</u>	<u>\$ 6,298</u>
<b><u>Other Financing Sources (Uses)</u></b>					
Transfers in	\$ -	\$ -	\$ 23,473	\$ -	\$ 23,473
Transfers out	(15,542)	(7,931)	-	-	(23,473)
Total other financing sources (uses)	<u>\$ (15,542)</u>	<u>\$ (7,931)</u>	<u>\$ 23,473</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>Excess of Revenues and Other Sources Over (Under)</u></b>					
<b><u>Expenditures and Other Uses</u></b>	<u>\$ 28,802</u>	<u>\$ (11,680)</u>	<u>\$ (1,858)</u>	<u>\$ (8,966)</u>	<u>\$ 6,298</u>
Fund Balance - Beginning of Year	252,286	39,286	40,368	9,021	340,961
<b><u>Fund Balance - End of Year</u></b>	<u>\$ 281,088</u>	<u>\$ 27,606</u>	<u>\$ 38,510</u>	<u>\$ 55</u>	<u>\$ 347,259</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

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Net Change in Fund Balance - Total Governmental Funds	\$ 6,298
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Government funds report outlays for capital assets as expenditures.

In the Statement of Activities these assets are depreciated over their estimated useful lives.

Depreciation	\$ (9,889)	
Capital Outlay	<u>22,743</u>	
		12,854

Internal Service Funds are used by management to charge the cost of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities.

<u>(5,547)</u>
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Changes in Net Assets-Governmental Activities	<u><u>\$ 13,605</u></u>
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The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**PROPRIETARY FUND STATEMENT OF NET ASSETS**  
**FEBRUARY 28, 2007**

	<b>Enterprise Fund - Sewer Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 76,431	\$ 91,527
Restricted Cash	68,205	-
Receivables	12,715	-
Inventories	2,029	-
Due from other funds	-	9,710
Total Current Assets	<u>\$ 159,380</u>	<u>\$ 101,237</u>
<b>Non-Current Assets:</b>		
Capital Assets	\$ 4,492,264	\$ 79,772
Total Non-Current Assets	<u>\$ 4,492,264</u>	<u>\$ 79,772</u>
<b>Total Assets</b>	<u><u>\$ 4,651,644</u></u>	<u><u>\$ 181,009</u></u>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
Accounts Payable	\$ 3,147	\$ 1,082
Due to other funds	1,581	985
Accrued Interest Payable	7,384	-
Deferred Revenue	3,267	-
Current Portion of Non-Current Liabilities	2,000	-
Total Current Liabilities	<u>\$ 17,379</u>	<u>\$ 2,067</u>
<b>Non-Current Liabilities:</b>		
Bonds Payable	<u>\$ 1,223,000</u>	<u>\$ -</u>
<b>Total Liabilities</b>	<u><u>\$ 1,240,379</u></u>	<u><u>\$ 2,067</u></u>
<b><u>NET ASSETS</u></b>		
Invested in Capital Assets - Net of Related Debt	\$ 3,267,264	\$ 85,303
Restricted for Debt Service	68,205	-
Unrestricted	75,796	93,639
Total Net Assets	<u>\$ 3,411,265</u>	<u>\$ 178,942</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 4,651,644</u></u>	<u><u>\$ 181,009</u></u>
<b>Total Net Assets</b>	\$ 3,411,265	\$ 178,942
Adjustments to reflect the consolidation of internal service fund activities related to the enterprise fund - current year	638	(638)
- prior years	<u>-</u>	<u>(1,344)</u>
<b>Net Assets of Business-Type Activities</b>	<u><u>\$ 3,411,903</u></u>	<u><u>\$ 176,960</u></u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**PROPRIETARY FUND STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET**  
**ASSETS FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<b>Enterprise Fund - Sewer Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b><u>Operating Revenues</u></b>		
Charges for services	\$ 177,719	\$ 23,857
<b><u>Operating Expenses</u></b>		
Personal services	\$ 10,240	\$ 213
Professional services	7,370	-
Utilities	20,082	2,948
Repairs and maintenance	19,081	10,050
Equipment rental	3,092	-
Other supplies and expenses	12,210	8,282
Depreciation	87,752	8,117
Total operating expenses	\$ 159,827	\$ 29,610
Operating income (loss)	\$ 17,892	\$ (5,753)
<b><u>Non-Operating Revenues (Expenses)</u></b>		
Grant revenue	\$ 165,100	\$ -
Other income	2,579	-
Interest income	7,427	844
Interest expense	(54,897)	-
Total non-operating revenue (expense)	\$ 120,209	\$ 844
Income (loss) before transfers	\$ 138,101	\$ (4,909)
Transfers in	\$ -	\$ -
<b>Change in Net Assets</b>	\$ 138,101	\$ (4,909)
Total Net Assets - Beginning of Year	3,273,164	183,851
<b>Total Net Assets - End of Year</b>	<b>\$ 3,411,265</b>	<b>\$ 178,942</b>
Changes in net assets	\$ 138,101	\$ (4,909)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	638	(638)
Change in Net Assets of Business-Type Activities	<b>\$ 138,739</b>	<b>\$ (5,547)</b>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA**  
**PROPRIETARY STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<b>Enterprise Fund - Sewer Fund</b>	<b>Governmental Activities - Internal Service Fund</b>
<b><u>Cash Flows From Operation Activities</u></b>		
Receipts From Customers	\$ 181,433	\$ -
Cash Receipts from Interfund Services	-	15,436
Payments to Suppliers	(66,812)	(20,535)
Cash Payments for Interfund Services	(2,023)	-
Payments to Employees	(9,512)	(198)
Other Receipts (Payments)	2,579	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 105,665</u>	<u>\$ (5,297)</u>
<b><u>Cash Flows From Capital and Related Financing Activities</u></b>		
Grant revenue	\$ 165,100	\$ -
Purchase of Capital Assets	(185,946)	(2,586)
Principal and Interest Paid on Capital Debt	(288,768)	-
Other Receipts (Payments)	16,978	-
Net Cash (Used) Provided by Capital and Related Financing Activities	<u>\$ (292,636)</u>	<u>\$ (2,586)</u>
<b><u>Cash Flows From Investing Activities</u></b>		
Interest Income	\$ 7,427	\$ 844
Net Cash Provided by Investing Activities	<u>\$ 7,427</u>	<u>\$ 844</u>
<b><u>Net Increase in Cash and Cash Equivalents</u></b>	\$ (179,544)	\$ (7,039)
Cash - Beginning of Year	<u>324,180</u>	<u>98,566</u>
<b><u>Cash - End of Year</u></b>	<u>\$ 144,636</u>	<u>\$ 91,527</u>

The accompanying notes are an integral part of these financial statements.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Village of Onekama conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Local Governmental Unit:

**Reporting Entity**

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Onekama. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available within sixty (60) days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 1 - Summary of Significant Accounting Policies - continued**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

The Village's property tax is levied on each July 1st on the taxable valuation of property (as defined by State statutes) located in the Village as of the preceding December 31<sup>st</sup>.

Although the Village's 2006 ad valorem tax is levied and collectible on July 1, 2006, it is the Village's policy to recognize revenue from the current tax levy in the subsequent year OR the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 taxable valuation of the Village totaled \$ 15,542,745, on which ad valorem taxes levied consisted of 5 mills for the Village operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street and Local Street Funds account for the resources of state gas and weight tax revenues that are restricted for use on major and local streets.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

Additionally, the government reports the following fund type:

Internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting issued prior to December 31, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.



**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 1 - Summary of Significant Accounting Policies - continued**

**Measurement Focus, Basis of Accounting and Financial Statement Presentation - continued**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted Assets - The revenue bonds of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 1 - Summary of Significant Accounting Policies - continued**

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Land Improvements	8 to 15 years
Water and Sewer Lines	50 to 75 years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Deficit Fund Balance - A deficit fund balance of \$ 2,197 exists within the Cemetery Fund. The deficit results from the fund not receiving a budgeted transfer from the General Fund of \$ 14,000 during the fiscal year ended February 28, 2007. It is expected that a transfer will be made to the Cemetery Fund during the 2007/2008 fiscal year which will correct the deficit balance.

**Note 2 – Stewardship, Compliance and Accountability**

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is the function level. The Village Council approved its' original budgets on February 9, 2006, and then made their final supplemental budgetary appropriations on February 21, 2007.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Public hearings are conducted at the Village office to obtain taxpayer comments.
- b. No later than February, the budget is legally enacted through passage of a resolution.
- c. Supplemental appropriations, when required to provide additional expenditures are matched by additional anticipated revenue or an appropriations of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 2 – Stewardship, Compliance and Accountability - Continued**

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Local Governmental Unit incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund – Street Lights	\$ 9,000	\$ 10,155

**Note 3 – Deposits and Investments**

Michigan Compiled Laws, Section 129.91, authorizes the Village of Onkama to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Village of Onkama is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Village Council has designated five banks for the deposit of the Village funds. The investment policy was adopted by the board in accordance with Public Act 196 of 1997.

At year end, the Village's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 424,967	\$ 76,431	\$ 501,398
Restricted Cash	-	68,205	68,205
Total	<u>\$ 424,967</u>	<u>\$ 144,636</u>	<u>\$ 569,603</u>

The cash deposits held at financial institutions can be categorized according to three levels of risk. These three levels of risk are as follows:

- Category 1      Deposits which are insured or collateralized with securities held by the Village or by its agent in the Village's name.
- Category 2 –    Deposits which are collateralized with securities held by the pledging financial institutions's trust department or agent in the Village's name.

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 3 – Deposits and Investments - Continued**

Category 3 - Deposits which are not collateralized or insured.

Based on these three levels of risk, \$ 35,158 of the Village's cash deposits are classified as Category 3, and the remainder is classified as Category 1.

**Note 4 - Receivables**

Receivables as of year-end for the government's individual major and nonmajor funds, and the internal service including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Major Street	Local Street	Sewer	Non-Major and Other Funds	Total
Accounts Receivable	\$ -	\$ -	\$ -	\$ 12,715	\$ -	\$ 12,715
Intergovernmental	15,696	5,707	2,924	-	-	24,327
Net Receivables	<u>\$ 15,696</u>	<u>\$ 5,707</u>	<u>\$ 2,924</u>	<u>\$ 12,715</u>	<u>\$ -</u>	<u>\$ 37,042</u>

**Note 5 – Capital Assets**

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital Assets Not Being Depreciated:				
Land	<u>\$ 107,601</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,601</u>
Capital Assets Being Depreciated:				
Buildings	\$ 137,489	\$ 14,583	\$ -	\$ 152,072
Land improvements	25,913	3,000	-	28,913
Machinery and Equipment	<u>253,819</u>	<u>7,745</u>	<u>-</u>	<u>261,564</u>
Subtotal	<u>\$ 417,221</u>	<u>\$ 25,328</u>	<u>\$ -</u>	<u>\$ 442,549</u>

**VILLAGE OF ONEKAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2007**

**Note 5 – Capital Assets - Continued**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities - Continued</b>				
Less: Accumulated Depreciation for:				
Buildings	\$ (57,990)	\$ (3,713)	\$ -	\$ (61,703)
Land improvements	(2,699)	(3,322)	-	(6,021)
Machinery and Equipment	(139,149)	(10,971)	-	(150,120)
 Subtotal	<u>\$ (199,838)</u>	<u>\$ (18,006)</u>	<u>\$ -</u>	<u>\$ (217,844)</u>
 Net Capital Assets Being Depreciated	<u>\$ 217,383</u>	<u>\$ 7,322</u>	<u>\$ -</u>	<u>\$ 224,705</u>
 Governmental Activities Capital Total:				
Capital Assets - Net of Depreciation	<u>\$ 324,984</u>	<u>\$ 7,322</u>	<u>\$ -</u>	<u>\$ 332,306</u>
 <b>Business-Type Activities</b>				
Capital Assets Not Being Depreciated:				
Land	791,790	\$ -	\$ -	\$ 791,790
Construction in Progress	2,807,384	-	(2,807,384)	-
 Subtotal	<u>\$ 3,599,174</u>	<u>\$ -</u>	<u>\$ (2,807,384)</u>	<u>\$ 791,790</u>
 Capital Assets Being Depreciated:				
Sewer System and Equipment	\$ 1,628,526	\$ 2,993,330	\$ -	\$ 4,621,856
Less: Accumulated Depreciation for:				
Sewer System	\$ (833,631)	\$ (87,751)	\$ -	\$ (921,382)
 Net Capital Assets Being Depreciated:	<u>794,895</u>	<u>\$ 2,905,579</u>	<u>\$ -</u>	<u>\$ 3,700,474</u>
 Governmental Activities Capital Total:				
Capital Assets - Net of Depreciation	<u>\$ 4,394,069</u>	<u>\$ 2,905,579</u>	<u>\$(2,807,384)</u>	<u>\$ 4,492,264</u>

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 5 – Capital Assets - Continued**

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities:		
General Government	\$	7,426
Recreation and Culture		2,463
Internal Service Fund Depreciation is Charged to the		
Various Functions Based on Their Usage of the Assets		<u>8,117</u>
Total Governmental Activities	\$	<u>18,006</u>
Business-Type Activities:		
Sewer	\$	<u>87,751</u>

**Note 6 – Interfund Receivables, Payables, and Transfers**

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
<b>Due To/From Other Funds</b>		
General	Sewer	\$ 1,753
	Cemetery	3,687
	Liquor	236
	Local Street	1,363
	Major Street	1,661
	Equipment	985
Local Street	Major Street	730
Equipment	General Fund	822
	Major Street	4,168
	Local Street	3,123
	Sewer	1,172
	Cemetery	<u>425</u>
Total		<u>\$ 20,125</u>

**VILLAGE OF ONEKAMA  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007**

**Note 6 – Interfund Receivables, Payables, and Transfers - continued**

**Interfund Transfers**

	Transfers (Out)		
	General Fund	Major Street Fund	Total
Transfers In			
Local Street	\$ 15,542	\$ 7,931	\$ 23,473
Total	<u>\$ 15,542</u>	<u>\$ 7,931</u>	<u>\$ 23,473</u>

**Note 7 - Leases**

The Village has entered into contracts with several local oil and gas companies and has leased some park, cemetery, and other properties and portions of streets and alleys to these companies for mineral rights. The Village currently receives oil and gas royalties from these properties.

**Note 8 – Long-Term Debt**

Bond activity is summarized as follows:

	Interest Rate	Beginning Balance	Additions	(Reductions)	Ending Balance	Due Within One Year
Business-Type Activities:						
1973 Sewage Bond	5 %	\$ 72,000	\$ -	\$ (72,000)	\$ -	\$ -
1996 Sewage Bond	5 %	158,000	-	(158,000)	-	-
2006A Sewage Bond	3.25 %	639,000	-	(1,000)	638,000	1,000
2006B Sewage Bond	4.25 %	588,000	-	(1,000)	587,000	1,000
		<u>\$ 366,000</u>	<u>\$ -</u>	<u>\$ (232,000)</u>	<u>\$1,225,000</u>	<u>\$ 2,000</u>

Annual debt service requirements to maturity for the above obligations are as follows:

Year-End February 28,	Business-Type Activities	
	Principal	Interest
2008	2,000	45,608
2009	2,000	45,533
2010	2,000	45,458
2011-2015	61,000	222,465
2016-2020	111,000	203,904
2021-2025	128,000	181,429
2026-2030	152,000	155,157
2031-2035	188,000	123,023
2036-2040	268,000	78,707
2041-2045	311,000	23,902
	<u>1,225,000</u>	<u>1,125,186</u>

The Village is in compliance with the bond ordinance's bond reserve requirements.

**VILLAGE OF ONEKAMA**  
**NOTES TO FINANCIAL STATEMENTS**  
**FEBRUARY 28, 2007**

**Note 9 – Restricted Assets**

The balances of the restricted asset accounts in the enterprise funds are as follows:

Revenue Bond Restrictions:

Improvement and Replacement Account	\$ 60,000
Bond Reserve	<u>8,205</u>
Total Restricted Assets	<u>\$ 68,205</u>

**Note 10 – Risk Management**

The Village is exposed to various risks of loss related to; thefts of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. The Village is insured through the Michigan Township Participating Plan which is a public risk pool currently operating as a common risk management and insurance program for Michigan Municipalities. The Village pays an annual premium to the Michigan Township Participating Plan for its insurance coverage. The Village has general liability insurance with a \$1,000,000 single occurrence limit and \$3,000,000 aggregate. Property insurance provides for a \$100 deductible. Settled claims have not exceeded their coverage in any of the past years.

**Note 11 – Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 12 – Prior Period Adjustment**

Beginning net assets and invested in capital assets fund balances have been adjusted for a previous years' error in reporting capital assets. In prior years, a donated parcel of land was omitted from the accounting records. The beginning invested in capital assets balances reflects an adjustment of \$66,000, which is the estimated fair value of the land at the time of the donation. The donation occurred during the 1999-2000 fiscal year. Governmental activities net income would have been understated by \$66,000 during that fiscal year.



**REQUIRED SUPPLEMENTAL INFORMATION**

**VILLAGE OF ONEKAMA**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of year fund balance	\$ 252,286	\$ 252,286	\$ 252,286	\$ -
<b><u>Resources (Inflows)</u></b>				
Taxes and penalties	\$ 88,400	\$ 88,400	\$ 77,700	\$ (10,700)
Licenses and permits	300	450	425	(25)
State grants	50,000	50,000	49,594	(406)
Charges for services	300	1,200	2,757	1,557
Interest and dividends	3,000	6,000	7,145	1,145
Rents and royalties	19,500	19,600	16,930	(2,670)
Miscellaneous	-	150	150	-
Refunds and rebates	1,800	1,800	906	(894)
Library/Rent and utilities	1,200	1,600	-	(1,600)
Amounts available for appropriation	\$ 164,500	\$ 169,200	\$ 155,607	\$ (13,593)
<b><u>Charges to Appropriations (Outflows)</u></b>				
General government:				
Village council	\$ 29,800	\$ 33,500	\$ 22,045	\$ 11,455
Elections	1,000	1,000	418	582
Clerk	13,950	14,750	14,572	178
Treasurer	6,500	7,900	6,813	1,087
Building and grounds	30,175	33,400	27,719	5,681
Community and economic development:				
Zoning	1,820	1,820	1,272	548
Recreation and cultural:				
Park facilities	38,450	38,850	19,168	19,682
Other:				
Public works wages	25,000	25,000	3,247	21,753
Liquor control wages	1,000	1,500	-	1,500
Payroll taxes	5,000	6,500	248	6,252
Insurance	7,000	7,000	2,321	4,679
Miscellaneous	2,800	6,300	3,285	3,015
Street lights	9,000	9,000	10,155	(1,155)
Transfers out:				
Internal service fund	-	-	-	-
Local street fund	15,000	31,000	15,542	15,458
Cemetery fund	14,000	14,000	-	14,000
Total charges to appropriations	\$ 200,495	\$ 231,520	\$ 126,805	\$ 104,715
Budgetary Fund Balance - End of Year	\$ 216,291	\$ 189,966	\$ 281,088	\$ 91,122

**VILLAGE OF ONEKAMA**  
**BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of Year Fund Balance	\$ 39,286	\$ 39,286	\$ 39,286	\$ -
<b><u>Resources (Inflows)</u></b>				
State grants	\$ 30,350	\$ 32,850	\$ 32,824	\$ (26)
Interest	300	800	804	4
Amounts available for appropriation	<u>\$ 30,650</u>	<u>\$ 33,650</u>	<u>\$ 33,628</u>	<u>\$ (22)</u>
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public works:				
Highways and streets	\$ 54,510	\$ 56,010	\$ 37,377	\$ 18,633
Transfers out:				
Local street fund	<u>8,000</u>	<u>8,000</u>	<u>7,931</u>	<u>69</u>
Total charges to appropriations	<u>\$ 62,510</u>	<u>\$ 64,010</u>	<u>\$ 45,308</u>	<u>\$ 18,702</u>
Budgetary Fund Balance - End of Year	<u><u>\$ 7,426</u></u>	<u><u>\$ 8,926</u></u>	<u><u>\$ 27,606</u></u>	<u><u>\$ 18,680</u></u>

**VILLAGE OF ONEKAMA**  
**BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance With Amended Budget</u>
Beginning of Year Fund Balance	\$ 40,368	\$ 40,368	\$ 40,368	\$ -
<b><u>Resources (Inflows)</u></b>				
State grants	\$ 16,000	\$ 17,350	\$ 17,340	\$ (10)
Interest	300	750	792	42
Transfers in:				
General fund	15,000	16,000	15,542	(458)
Major street fund	8,000	8,000	7,931	(69)
Amounts available for appropriation	\$ 39,300	\$ 42,100	\$ 41,605	\$ (495)
<b><u>Charges to Appropriations (Outflows)</u></b>				
Public works:				
Highways and streets	\$ 54,250	\$ 57,150	\$ 43,463	\$ 13,687
Total charges to appropriations	\$ 54,250	\$ 57,150	\$ 43,463	\$ 13,687
Budgetary Fund Balance- End of Year	<u>\$ 25,418</u>	<u>\$ 25,318</u>	<u>\$ 38,510</u>	<u>\$ 13,192</u>

### **ADDITIONAL INFORMATION**

**VILLAGE OF ONEKAMA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
FEBRUARY 28, 2007**

	<u>Liquor Fund</u>	<u>Cemetery Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash	\$ 2,488	\$ 2,082	\$ 4,570
Due from other funds	-	-	-
Due from other governments	-	-	-
Interest receivable	-	-	-
Franchise fee receivable	-	-	-
Total Assets	<u>\$ 2,488</u>	<u>\$ 2,082</u>	<u>\$ 4,570</u>
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ -	\$ 167	\$ 167
Due to other funds	236	4,112	4,348
Payroll taxes payable	-	-	-
Total Liabilities	<u>\$ 236</u>	<u>\$ 4,279</u>	<u>\$ 4,515</u>
<b><u>FUND BALANCE</u></b>			
Unreserved	\$ 2,252	\$ (2,197)	\$ 55
Total fund balance	<u>\$ 2,252</u>	<u>\$ (2,197)</u>	<u>\$ 55</u>
<b><u>Total Liabilities and Fund Balance</u></b>	<u>\$ 2,488</u>	<u>\$ 2,082</u>	<u>\$ 4,570</u>

**VILLAGE OF ONEKAMA**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED FEBRUARY 28, 2007**

	<b>Liquor Fund</b>	<b>Cemetery Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b><u>Revenues</u></b>			
State grants	\$ 1,557	\$ -	\$ 1,557
Charges for services	-	-	-
Interest	35	49	84
Rents and royalties	-	-	-
Miscellaneous	-	3,850	3,850
Total Revenues	<u>\$ 1,592</u>	<u>\$ 3,899</u>	<u>\$ 5,491</u>
<b><u>Expenditures</u></b>			
General government	\$ -	\$ 12,964	\$ 12,964
Public safety	1,493	-	1,493
Total Expenditures	<u>\$ 1,493</u>	<u>\$ 12,964</u>	<u>\$ 14,457</u>
<b><u>Excess of Revenues Over (Under) Expenditures</u></b>	<u>\$ 99</u>	<u>\$ (9,065)</u>	<u>\$ (8,966)</u>
<b><u>Other Financing Sources (Uses)</u></b>			
Transfers in	\$ -	\$ -	\$ -
Transfers out	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b><u>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</u></b>	<u>\$ 99</u>	<u>\$ (9,065)</u>	<u>\$ (8,966)</u>
Fund Balance - Beginning of Year	<u>2,153</u>	<u>6,868</u>	<u>9,021</u>
<b>Fund Balance - End of Year</b>	<u><u>\$ 2,252</u></u>	<u><u>\$ (2,197)</u></u>	<u><u>\$ 55</u></u>

**KALCHER  
VANDERWAL  
& TORREY, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.  
LEE W. TORREY, C.P.A.  
JOHN A. SPRATTO, C.P.A.  
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY  
MANISTEE

Of Counsel:  
LEONARD R. KALCHER, C.P.A.

August 29, 2007

To the Village Council  
Village of Onekama  
Onkama, Michigan 49660

In planning and performing our audit of the financial statements of the Village of Onekama as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Village of Onekama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the governmental unit's internal controls. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

**Sewer Collection and Billing Procedures**

The total billing and collection process is being performed by one individual. The duties of this function should be separated and overseen/reviewed to ensure proper internal control. This is a repeat comment from the previous year, but given the level of staffing in the Village office, this will most likely be an internal control weakness until staffing levels increase.



August 29, 2007

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### **Supply Inventory**

The Village completed an inventory of supplies on hand at the end of its fiscal year ended February 28, 2005, in anticipation of the GASB 34 conversion. This inventory count was not completed timely for the fiscal years ended February 28, 2006 and February 28, 2007. A complete supply inventory should now be taken at the end of each fiscal year.

### **Preparation of Financial Statements in Accordance with GAAP**

As is the case with many smaller and medium-sized entities, the Village has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Village's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the Village's *internal* controls. This condition was caused by the Village's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Village to perform this task internally. As a result of this condition, the Village lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

This communication is intended solely for the information and use of management, Village Council of the Village of Onekama, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

KALCHER, VANDEBEEK & TERRY, P.C.

Certified Public Accountants

August 29, 2007